

Message Text

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PAGE 01 LONDON 18990 01 OF 02 241542Z

44

ACTION EB-07

INFO OCT-01 AF-08 ARA-06 EUR-12 EA-07 ISO-00 IO-13 OIC-02

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CIEP-01 SS-15 STR-04 ITC-01 TRSE-00 USIA-06 PRS-01

SP-02 FEAE-00 OMB-01 GSA-01 /124 W

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 8066

INFO AMEMBASSY BANGKOK

AMEMBASSY BONN

AMEMBASSY CANBERRA

AMEMBASSY JAKARTA

AMEMBASSY KUALA LUMPUR

AMEMBASSY KINSHASA

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LIMITED OFFICIAL USE SECTION 01 OF 02 LONDON 18990

E.O. 11652: N/A

TAGS: EMIN, ETRD

SUBJECT: TIN - MEETING OF INTERNATIONAL TIN COUNCIL
COMMITTEE ON COSTS AND PRICES

1. SUMMARY. THE WORKING PARTY OF THE INTERNATIONAL
TIN COUNCIL'S (ITC) COMMITTEE ON COSTS AND PRICES
(CAP/WP) MET NOVEMBER 16, 17, FOLLOWED BY A MEETING OF
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PAGE 02 LONDON 18990 01 OF 02 241542Z

THE FULL CAP, NOVEMBER 22, U.S. ELECTED CHAIRMAN. MAJOR

PURPOSE OF THE MEETINGS WAS TO EXAMINE PRODUCTION COSTS IN ITC PRODUCING MEMBER COUNTRIES AND TO DRAFT A REPORT TO THE COUNCIL, WHICH MEETS DECEMBER 6, TO CONSIDER WHETHER TO INCREASE MINIMUM AND MAXIMUM PRICE LEVELS UNDER THE AGREEMENT. THE MEETINGS WERE WORKMANLIKE, BUT ATTENDANCE WAS DISAPPOINTING AT THE NOVEMBER 22 FULL CAP MEETING. BY ALL ACCOUNTS, PRODUCER DATA SUBMISSIONS SHOWED CONTINUED IMPROVEMENT IN QUALITY; HOWEVER, STILL MUCH NEEDS TO BE DONE. COSTS AS EXPECTED, GENERALLY SHOWED INCREASES OVER THE LAST YEAR, BUT THE RANGE RAN FROM A SMALL UNIT COST DECLINE FOR LODE UNDERGROUND MINING IN AUSTRALIA TO AN ALMOST DOUBLED UNIT COST FOR OFF-SHORE DREDGES IN THAILAND. VARIATIONS WERE GREAT FROM COUNTRY TO COUNTRY BETWEEN TYPES OF MINING OPERATIONS AND FACTOR COSTS. END SUMMARY.

2. THE CAP/WP: THE CAP/WP, CONSISTING OF CANADA, T/HE UK, THE NETHERLANDS, JAPAN, FRANCE AND THE FRG FOR THE CONSUMERS; AND MALAYSIA, INDONESIA, THAILAND, BOLIVIA, AUSTRALIA AND NIGERIA MET UNDER THE CHAIRMANSHIP OF THE U.S., WITH ALL BUT NIGERIA IN ATTENDANCE. TWO DAYS OF INTENSIVE SCRUTINY WERE GIVEN NEW COST DATA SUBMITTED BY PRODUCING MEMBERS (ALL EXCEPT NIGERIA). QUALITY OF SUBMISSIONS AND ORAL PRESENTATIONS VARIED GREATLY. NEVERTHELESS, ALL DELEGATIONS TOOK THE EXERCISE SERIOUSLY. MALAYSIA'S WRITTEN SUBMISSIONS WERE THE BEST. INDONESIA'S WERE MUCH IMPROVED BUT STILL COULD BE BETTER. SIAHAAN OF INDONESIA DID A PARTICULARLY GOOD JOB IN FIELDING QUESTIONS. BOLIVIA'S SUBMISSION LEFT MUCH TO BE DESIRED.

3. IN A REVIEW OF THE TERMS OF REFERENCE OF THE CAP, BOTH AT THE CAP/WP AND THE LARGER MEETING, THE CHAIRMAN EMPHASIZED THE FOLLOWING POINTS AS HIS UNDERSTANDING OF THE COMMITTEE'S ROLE:

(A) THE CAP SHOULD NOT RECOMMEND SPECIFIC FLOOR AND CEILING PRICES - THAT IS A POLITICAL MATTER FOR COUNCIL DECISION;

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PAGE 03 LONDON 18990 01 OF 02 241542Z

(B) CAP SHOULD PROVIDE BEST TECHNICAL DATA POSSIBLE;

(C) DATA SO PROVIDED DOES NOT LIMIT COUNCIL AND WILL UNDOUBTEDLY BE ONLY ONE OF A SERIES OF FACTORS THE COUNCIL WILL WISH TO TAKE INTO ACCOUNT.

THIS STATEMENT, DESIGNED MOSTLY AS REASSURANCE TO

THOSE CONSUMERS WHO SEEMED TO FEEL THAT UPGRADING THE CAP MIGHT INTRODUCE AN UNDESIRABLE ELEMENT OF AUTOMATICITY, WAS ACCEPTED WITHOUT DISSENT.

4. THE CAP. ATTENDANCE AT THE NOVEMBER 22 MEETING, OPEN TO THE ENTIRE ITC MEMBERSHIP, WAS DISAPPOINTING. THREE PRODUCERS, BOLIVIA, NIGERIA AND MALAYSIA (THE MALAYSIAN DELEGATE, FATAH, RETURNED TO KUALA LUMPUR FOR AN URGENT MEETING ON RUBBER) DID NOT ATTEND AT ALL. THAILAND ONLY ATTENDED THE MORNING SESSION. THE COMMITTEE REVIEWED THE DRAFT CAP REPORT (DOC. CAP NO. 8) PREPARED FOLLOWING CAP/WP DELIBERATION, AS WELL AS AN HISTORICAL STUDY ON TIN PRICE TRENDS IN REAL TERMS SUBMITTED BY FRANCE (LEGOUX) AND AN EXCELLENT STATISTICAL TRENDS SUMMARY DOCUMENT SUBMITTED BY THE SECRETARIAT.

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PAGE 01 LONDON 18990 02 OF 02 241546Z

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LIMITED OFFICIAL USE SECTION 02 OF 02 LONDON 18990

A FAIRLY EXTENSIVE DEBATE ON ROYALTIES, EXPORT DUTIES AND TRIBUTES AS A COST ELEMENT WAS SPARKED BY AN INTERVENTION BY FRANCE. THE U.S., SUPPORTED BY OTHER CONSUMERS, EMPHASIZED THE LINKAGE BETWEEN INVESTMENT AND TAX LEVELS. THERE WAS NO CONSENSUS, HOWEVER, FOR A RECOMMENDATION THAT THE CAP UNDERTAKE A STUDY OF THE LIMITED OFFICIAL USE

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PAGE 02 LONDON 18990 02 OF 02 241546Z

PROBLEM, SO THE CHAIR RULED THAT THE DISCUSSION BE NOTED IN CAP REPORT WITHOUT RECOMMENDATION FOR THE MOMENT.

5. THE REPORT. ON THE BASIS OF THE CAP DISCUSSIONS, THE SECRETARIAT WILL MAKE FURTHER REFINEMENTS TO THE DRAFT REPORT AND ISSUE IT WITHOUT FURTHER REFERENCE TO THE COMMITTEE (BUT SUBJECT TO THE CHAIRMAN'S APPROVAL). THIS WILL BE CIRCULATED PRIOR TO THE COUNCIL MEETING ON DECEMBER 6. THE REPORT WILL BE COMPREHENSIVE, CONSISTING OF:

(A) A SUMMARY STATEMENT, DRAWING TOGETHER COMMON ELEMENTS, NOTING CONTRASTS.

(B) THE MAIN REPORT (DOCUMENT CAP 8).

(C) SUMMARY COST TABLES, DATA ON INVESTMENT TRENDS AND ON ORE GRADES MINED.

(D) SUPPORTING DOCUMENTAZON FROM EACH COUNTRY.

SUMMARY COST TABLES, WITH DATA FOR ALL COUNTRIES SHOWN IN TERMS OF UNIT COST OF M\$ PER PIKUL, WILL SHOW THAT AUSTRALIA, BOLIVIA, INDONESIA AND MALAYSIA ALL REPORT MINING OPERATIONS WITH UNIT COSTS ABOVE THE FLOOR LEVEL OF M\$ L,000 PER PIKUL. THIS REPRESENTS SOMEWHAT OVER 40 PERCENT OF WORLD PRODUCTION. IF ROYALTIES, EXPORT DUTIES AND TRIBUTES ARE EXCLUDED FROM CALCULATION, SOME 18 PERCENT OF WORLD PRODUCTION COMES FROM SUCH OPERATIONS. AN ADDITIONAL 6 PERCENT, HOWEVER, IS JUST BELOW THIS LEVEL. AUSTRALIA REPORTED ITS UNIT

COST FOR OPEN CAST MINING AT ABOVE THE CEILING, AND IN-
DEED, ABOVE RECENT MARKET PRICES.

6. COMMENT: THE CAP REPORT AT BEST PROVIDES ONLY

CRUDE APPROACH TO DETERMINING UNIT COSTS, BUT IT WILL
CONTAIN MUCH USEFUL INFORMATION AND SEEMS TO REPRESENT
MOVEMENT TOWARD A MORE SOPHISTICATED SYSTEM. A MAJOR
DIFFICULTY CONTINUES TO BE VARIATION IN REPORTING WHICH
MAKES COMPARISONS BETWEEN PRODUCERS DIFFICULT. HOWEVER,
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PAGE 03 LONDON 18990 02 OF 02 241546Z

IT IS QUITE POSSIBLE THAT QUESTIONABLE DATA MIGHT WELL
BE DUE MORE TO SLOPPY ACCOUNTING AT HOME AND TO MISUNDER-
STANDINGS THAN TO ANY DELIBERATE ATTEMPT TO DECEIVE.
"ONE SHOT" COST FACTORS, SUCH AS LARGE-SCALE CAPITAL
WRITE OFFS IN AUSTRALIA AND THE STRIKE IN
THAILAND ALSO DISTORT THE DATA.

7. EVEN WITH THE DIFFICULTY IN IDENTIFYING COMMON
THREADS AMONG COST FACTORS, ONE FACTOR IS CLEARLY DIS-
CERNIBLE AS A MAJOR VARIABLE IN MOST COUNTRIES. THIS
FACTOR IS "ROYALTIES, EXPORT DUTIES AND LEVIES," AND
REPRESENTS 30-40 PERCENT OF TOTAL COST IN SOME CASES.
OBVIOUSLY, THIS ELEMENT IS A CRUCIAL ONE FOR PRODUCERS,
WITH IMPORTANT MONETARY AND FISCAL IMPLICATIONS, BUT THE
TRADE OFF BETWEEN TAX LEVELS AND THE HEALTH OF THE
OPERATION IS ALSO CRUCIAL AND DESERVES CAREFUL CONSID-
ERATION.

8. TWO FACTORS HIGHLIGHTED DURING DISCUSSION BUT WHICH
WILL BE ONLY IMPERFECTLY TREATED IN THE REPORT, CONCERN
INVESTMENT AND GRADE OF ORE MINED IN EACH MINING OPERA-
TION. REGARDING THE FORMER, REPORTING WAS GENERALLY
POOR. THERE SEEMED TO BE GENERAL AGREEMENT THAT THE CAP,
POSSIBLY IN COOPERATION WITH THE COMMITTEE ON DEVELOP-
MENT, MUST DO MORE WORK IN THE AREA OF INVESTMENT TRENDS
AND PLANS AND THE LINKAGE BETWEEN FUTURE INVESTMENT,
WORLD PRODUCTION AND PRICES. SUCH DATA AS WERE AVAIL-
ABLE SUGGEST A STEADY DECLINE IN INVESTMENT IN MALAYSIA,
FOR EXAMPLE. MORE ATTENTION TO ORE GRADES WAS SUGGESTED
BY A UK INDUSTRY ADVISOR AS A PROMISING BASE LINE FOR
IMPROVED COST COMPARISON IN FUTURE STUDIES.

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